

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 EB-07 TRSE-00 OMB-01 AID-05 /071 W

-----047424 222147Z /73

P R 221807Z JUN 77

FM AMEMBASSY MADRID

TO SECSTATE WASHDC PRIORITY 746

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY THE HAGUE

AMEMBASSY LISBON

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY PARIS

USMISSION NATO

C O N F I D E N T I A L SECTION 1 OF 2 MADRID 4754

USEEC

E.O. 11652: XGDS-1

TAGS: PINT, SP

SUBJECT A UCD LEADER VIEWS THE SOCIALISTS AND THE ECONOMIC PROBLEMS

1. ONE OF THE KEY UCD FIGURES, FRANCISCO FERNANDEZ ORDONEZ, THE ECONOMIST AND FORMER HEAD OF INI (INSTITUTE OF NATIONAL INDUSTRY) AND THE LEADER OF THE SOCIAL DEMOCRATIC FRACTION WITHIN SUAREZ'S CENTRIST COALITION LUNCHEDED WITH THE AMBASSADOR JUNE 21. FERNANDEZ ORDONEZ, THOUGH HE HELD ECONOMIC POSTS DURING THE FRANCO ERA, IN LATER DAYS BECAME AN OPPOSITION FIGURE. AFTER THE SUAREZ GOVERNMENT CAME IN, FERNANDEZ ORDONEZ PLAYED A MAJOR ROLE IN THE OPPOSITION NEGOTIATING TEAM (THE COMMITTEE
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OF NINE) CHAIRING THE GROUP THAT NEGOTIATED THE ELECTORAL LAW WITH SUAREZ. HE MAINTAINS A GOOD RELATIONSHIP WITH THE TRADITIONAL LEFT INCLUDING FELIPE GONZALEZ AND WAS NEVER A PARTY TO THE ILL-FATED SCHEME TO DRIVE GONZALEZ INTO RADICALISM BY FORMING A TAME LEFT.

2. IF THE SOCIALISTS GOT A LITTLE MORE THAN WAS GOOD FOR EVERYONE, NONETHELESS FERMANDEZ ORDONEZ THROUGHT THE ELECTION RESULTS WERE QUITE ENCOURAGING. COMING OUT OF A DICTATORSHIP, IT WAS REALLY QUITE A TOUR DE FORCE FOR SUAREZ PERSONALLY AND THE CENTER FORMATION TO HAVE SECURED A PLURALITY WHEN ALMOST ALL WERE PRODUCTS, IN ONE WAY OR ANOTHER, OF THE OLD REGIME AND ONLY A FEW, LIKE HIMSELF, HAD ANY OPPOSITION CREDENTIALS. AND IT WAS CERTAINLY FAR PREFERABLE FOR THE SOCIALISTS TO BE THE LEADING PARTY ON THE LEFT THAN THE COMMUNISTS.

3. SUAREZ HAD BEEN PROVEN RIGHT IN LEGALIZING THE COMMUNISTS AND NOW CARRILLO IS FACED WITH INTERNAL CRITICISM FROM RADICALS BECAUSE THE PARTY HAD NOT DONE PARTICULARLY WELL IN THE ELECTIONS. DESPITE CARRILLO'S SAGACITY, HIS CIVIL WAR HISTORY HAD BEEN A LIABILITY TO THE COMMUNISTS.

4. FERNANDEZ ORDONEZ CONTINUED TO HAVE A HIGH REGARD FOR GONZALEZ, SAYING HE WAS NOT ONLY VERY ABLE, BUT ESSENTIALLY A MODERATE AND QUITE ANTI-COMMUNIST, A VIEW WE HAVE GENERALLY SHARED. NONETHELESS, DESPITE GONZALEZ PRESTIGE AND MUGICA'S EFFORTS THE SOCIALISTS WOULD RETAIN A STRONG RADICAL AND ROMANTIC FLAVOR. THEY HAD A NUMBER OF DEPUTIES, PLACEDOWN LISTS WITH NO EXPECTATION OF WINNING, OF RADICAL PERSUASION WHO

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WOULD BE DIFFICULT TO KEEP IN LINE. THE TUG OF WAR BETWEEN PRAGMATIC MODERATION AND RADICAL POSTURING WOULD CONTINUE TO MAKE THE SOCIALISTS AN UNPREDICTABLE PHENOMENON. THE TASK, AS HE SAW IT, WAS FOR THE CENTER TO WORK WITH GONZALEZ, TO THE EXTENT POLITICAL REALITY PERMITTED, TO MAKE THE PSOE AS MODERATE AS POSSIBLE.

5. IN THIS CONTEXT, HE THOUGHT HE MIGHT BE USEFUL TO SUAREZ IN DEALING WITH THE SOCIALISTS ON THE ECONOMIC FRONT. ONE MIGHT BE ABLE TO REACH TACIT AGREEMENT WITH THE SOCIALISTS ON THE LIMITS OF THE ECONOMIC PROGRAM EVEN THROUGHT THE PSOE WOULD STILL SPEAK AGAINST GOVERNMENT MEASURES IN THE CORTES. A FORMAL "SOCIAL PACT" BETWEEN THE GOVERNMENT AND THE SOCIALISTS SEEMED OUT OF THE QUESTION IF ONLY BECAUSE THE COMMUNISTS AND THE WORKERS COMMISSIONS WOULD LIKELY ADOPT A MORE RADICAL POSTURE IN AN EFFORT TO WIN VOTERS FROM THE SOCIALISTS.

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USEEC

6. ASSUMING NO FORMAL " SOCIAL PACT" --INVOLVING AN
INCOMES POLICY--WERE POSSIBLE, THEN THE GOS WOULD
PRESUMABLY HAVE TO INSTITUTE FAIRLY STRINGENT FISCAL
AND MONETARY MEASURES, AND IN ANY EVENT TAX REFORM
WOULD BE A NECESSITY. HE JUDGED THAT THE INFLATION
RATE MIBHT EVEN REACH A REAL RATE OF 35 PERCENT IN A YEAR
UNLESS SOMETHING WERE DONE. HE OFFERED NO FURTHER
SPECIFIC PRESCRIPTIONS ON ECONOMIC MATTERS BUT SAID
HE HAD SUGGESTED TO SUAREZ CALLING IN THE IMF AS A
MEANS OF GETTING THE SPANISH TO UNDERSTAND THEY HAD
RUN OUT OF CREDIT AND THAT ENDEMIC HIGH INFLATION IS
NOT SOMETHING A COUNTRY COULD LIVE WITH. HE PERSON-
ALLY THROUGHT DEVALUATION WOULD BE NECESSARY EVEN
THOUGHT PUBLICLY HE HAS SAID THE OPPOSITE. HE AGREED
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SUCH A MEASURE WOULD HAVE INFLATIONARY IMPACT BUT THIS
ACTION COULD ONLY BE TAKEN IN CONJUNCTION WITH OTHER
ECONOMIC MEASURES.

7. HE THOUGHT BOTH NATO AND EC MEMBERSHIP SHOULD BE PUT
ON THE BACK BURNER FOR THE TIME BEING. THE FORMER
BECAUSE THE SOCIALISTS WOULD OPPOSE IT AND THE LATTER
BECAUSE IN EUROPE'S CURRENT ECONOMIC STATE EC MEMBERSHIP
MIGHT NOT BE USEFUL TO SPAIN'S ECONOMY. WITH RESPECT
TO EC MEMBERSHIP HE THOUGHT THE INTERIM DISCUSSIONS
SHOULD CONTINUE BUT NO MOVE TOWARD MEMBERSHIP BE MADE AT
LEAST IN THE SHORT RUN. HE ALSO NOTED
FRENCH AND ITALIAN DIFFICULTIES WITH SPANISH
AGRICULTURE. FERNANDEZ ORDONEZ MAY BECOME SUAREZ'S
TOP ECONOMIC MINISTER THOUGH THIS DEPENDS ON POLITICAL
DECISIONS YET TO BE MADE.
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